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PAPER NO. 1447

## Impacts of Culture and Communist Orthodoxy on Chinese Management

*Frank S. T. Hsiao*

*Frank C. Jen*

*Cheng F. Lee*

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# **BEBR**

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April 1988

Impacts of Culture and Communist Orthodoxy  
on Chinese Management

Frank S. T. Hsiao  
University of Colorado

Frank C. Jen  
SUNY at Buffalo

Cheng F. Lee, Professor  
Department of Finance

The paper was presented at the China Enterprise Conference,  
Manchester Business School, Manchester, England, June 1-2,  
1987.





## Abstract

This paper investigates impacts of Chinese feudal culture and Communist orthodoxy on Chinese Management. Based upon The Art of War, the principles of Chinese and Japanese management are discussed in detail. It is shown that Confucianism is very important for Chinese and Japanese management. In addition, comparison of Japanese, American and Chinese management are analyzed. Finally, impacts of communist orthodoxy on both pre-1979 and post-1979 system of strategic operative for industrial enterprises in China are explored in some detail.



# Impacts of Culture and Communist Orthodoxy on Chinese Management

## Introduction

The main purpose of this paper is to investigate possible impacts of Chinese feudal culture and the communist orthodoxy on Chinese management. A second objective is to compare the management principles of China, Japan and the U.S. Basic principles of management in China and Japan were discussed in Section A. The importance of Confucianism on Chinese and Japanese management style is explored in Section B. The relationships between managers, leaders and organizations in accordance with Confucianism are discussed in Section C. The pre-1979 and the post-1979 systems of strategic operation for industrial enterprises in China are discussed in Sections D and E, respectively. In Section F the management of Chinese, Japanese and American companies is discussed. Finally, summary and concluding remarks are indicated in Section G.

### A. Basic Principles of Management in China and Japan

Management involves the coordination of human and physical factors to achieve increasing productive efficiency over time (Farmer and Richman, 1965). In capitalistic countries, improving efficiency is directly related to greater profit, which benefits the suppliers of capital as well as managers and workers. Greater efficiency, in turn, also benefits the public. Since a country's total production is the sum of the output of individual enterprises, increases in individual company productive efficiency will also increase the national output.

Thus the basic principles of management should be similar in capitalist countries like Japan and the United States on the one hand, and communist countries like China and the USSR on the other.

It is often pointed out that the principles of management in Japan and China are deeply rooted in Sun Tsu's, The Art of War, which was written in China almost 2,400 years ago. In the beginning of the book it states clearly that,

In considering the conduct of war the deliberation and comparison should be based on five principles

...

- (i) The Moral Cause is that which enables the whole people to be in perfect accord with the leader, for which they are willing to give up their lives, and because of which they loyally follow him through thick and thin.
- (ii) The Climatic Conditions concern with the weather, seasons and times--favorable or unfavorable.
- (iii) The Terrestrial Conditions concern with the distance and nature of the terrain--long or short, advantageous or disadvantageous, safe or dangerous.
- (iv) The Generalship of Commanders signifies wisdom, faith, compassion, courage and rigour.
- (v) The Organization and Disciplines signifies the order and skill of management of men and affairs that everything can be employed to the best advantage.

The applications of these five principles to management are obvious if "the conduct of war" is replaced by "corporate management," and "the generalship of commanders" by "leadership of Managers." In the above statement, the first and the last two principles deal with human factors, while the second and the third are concerned with the



physical environment. Sun Tsu goes on to explore in detail in 13 chapters: Planning, Strategy, Tactics, Formation, Opportunism, Maneuvers, Variations, Mobilization, Terrain, Situations, Incendiarism, and Espionage. One of the most well quoted passages is that "He who has a thorough knowledge of his own conditions as well as the conditions of the enemy is sure to win in all battles."

In terms of environmental constraints on the management process, Richman (1969, Chapter 2) suggests that the human factors are influenced by educational, sociological-cultural, political-legal, and economic constraints. This paper investigates impacts of Chinese feudal culture, religion and the communist orthodoxy on Chinese management and its organization.

In recent years, the Japanese management style as characterized by paternalism and lifetime employment has been one of the main concerns in comparative management literature (Nedwed, 1972; Kline, 1972; Ouchi, 1981). In reading Chinese management and organization and also from our own experience, we feel that Chinese management since the Cultural Revolution does not differ substantially from that of Japanese. As we will see below, it should be emphasized here that the similarity between Chinese and Japanese management applies to the aspects of style and cultural principles underlying it rather than to operational practices. Thus, in this paper, we will compare Chinese management with Japanese management, and point out their differences. The comparison of Chinese, Japanese and American management will be discussed in Section F.

## B. Confucianism and Management Style

The basic teaching of Confucius is the Five Constant Virtues: Humanity, righteousness, propriety, wisdom, and faithfulness (Ch'en, pp. 73-81). In practice, these virtues are expressed through five relations: sovereign and subject, parent and child, elder and younger brothers, husband and wife, and friend and friend. Among these five relationships, the first two relations, filial duty and loyalty, are generally deemed the most important. When they are applied to management, the first and the last relations stood out, as shown by the human factors in Sun Tsu's five principles, leading to the birth of paternalistic management style in both China and Japan.

It should be noted, however, that the management application of the Confucius teaching varies between China and Japan in modern history. In Tokugawa Japan, Confucianism had become the official philosophy. The samurai code of ethics had thereby become a blending of Confucian Morality and the feudal norms defining military honor. In Japan, Industrialization during Meiji era was characterized by Western style management of hiring and firing. However, during the campaign against the Factory Act around 1912 the Japanese factories started to "extoll the virtues of the traditional family ideology and to emphasize that the problems of employer-employee relations could be approached much more effectively through the application of the familial concepts of benevolence and reciprocity, rather than through labor legislation or organized labor movement" (Yoshino, 1968, p. 75; Nedwed, 1972, p. 126). Such a tendency was reinforced immediately

after WWII to stabilize and boost the morale of employment. Since that time it has become deeply embedded in the society.

The situation was reversed in China. When the Communist party came to power in 1949, it openly denounced and discarded the Confucian teaching. Instead it was replaced by the Marx-Leninism and Maoism. However, the situation changed drastically following the Cultural Revolution. Although the current Chinese regime still "Upholds the Four Basics," including Communism, they have found a compromise between communism and confucianism, at least in deed, if not officially. Thus Confucian thinking and custom still prevail in China.

Based on the five virtues, the well known theory of vertical society of Japan (Nakane, 1970) is also applicable to the Chinese society. In fact, it is no more than the basic teachings of Confucius and may also be observed in Korea, Singapore, and Hong Kong. Thus the theory of vertical society is not a unique product of the Japanese society.

Things have roots and branches; affairs have scopes and beginnings. To know what precedes and what follows, is nearly as good as having a head and feet. (Pound, 1951, p. 29)

The roots of the web of society is the individual and family:

...wanting good government in their states, they must establish order in their own families; wanting order in the home, they first disciplined themselves; desiring self-discipline, they rectified their own hearts; and wanting to rectify their own hearts, they sought precise verbal definitions, they set to extend their knowledge to the utmost. (Pound, p. 33)

### C. Managers, Leaders and Organization

The manager, as the "general" of the company, must assume the leadership which is endowed with various qualities distinguished from the ordinary man. Confucius distinguishes two kinds of individuals: Jun Tsu (Gentleman, Prince, Great Man, or Proper Man) and Xiao Ren (Petty Man, or Small Man).

Great Man, being universal in his outlook, is impartial; Petty Man, being partial, is not universal in outlook. (Confucius, Book 2)

He (Great Man) sets the good examples, then he invites others to follow it. (Confucius, Book 2)

Great Man cherishes Excellence; Petty Man, his own comfort. Great Man cherishes the rules and regulations; Petty Man, special favor. (Confucius, Book 4)

Great Man is conscious only of justice; Petty Man, only of self-interest. (Confucius, Book 4)

Hence, leadership belongs to Great Man. He should be concerned of others and make himself exemplary of others to follow. Great Man may not be a man of noble birth. He is a man of good moral character:

If the prince does not seek satiety at table or ease at home; if, intent upon his affairs and careful of his words, he turns to those who knows System and rectifies himself in accordance with it, of him I will indeed say that he is fond of learning. (Confucius, Book 1)

There is nothing which Great Man will contest with others... (Confucius, Book 3)

Great Man seeks to be slow of speech but quick of action. (Confucius, Book 4)

If the prince is not grave he will not inspire awe; he will not abide by his studies. Let him put loyalty and reliability first, having no friend who is not like himself. If he has faults, let him not object to changing. (Confucius, Book 1)



In general, Confucius sees ideal characters of a person, as follows:

Clever talk and a domineering manner have little to do with being man-at-his-best. (Confucius, Book 1)

I am not concerned that a man does not know of me;  
I am concerned that I do not know of him.  
(Confucius, Book 2)

A man who lacks reliability is utterly useless.  
(Confucius, Book 2)

Tseng Tsu once said, "Daily I examine myself on three points: Have I failed to be loyal in my work for others? Have I been false with my friends? Have I failed to pass on that which I was taught?"  
(Confucius, Book 1)

Thus a person must not speak too much, must examine oneself constantly, study hard, and try to be reliable with friends. When such a reflective, slow speaking person is influenced by passive religions like Buddhism or Shinto, combined with Taoism, the importance of peace and harmony becomes obvious. In a crowded country, peace and harmony can only be maintained by appropriate etiquette (propriety) and trustworthiness.

On the other hand, Filial duty is defined by Confucius as

While his father lives, observe a man's purposes;  
when the father dies, observe his actions. If for the three years (of mourning) a man does not change from the ways of his father, he may be called filial. (Confucius, Book 1)

If this is the case, then

It is said in the Writing of Old, "Filial duty!  
Just let there be filial duty! Then there will be kindness toward brothers, and this in turn will spread to the administration." This too is to be working in the government. (Confucius, Book 2)

Thus filial duty is the basis for the entire vertical relationship.

When Confucianism is applied to the vertical relation in a company

management, it produces paternalism. The parent-child commitment is further extended to the relationship between Oyabun-Kobun (superiors and subordinates), Sempai-Kohai (Seniors and Juniors). In modern society, such order occurs due to the time of entering the schools, especially the university, joining the company, or for that matter, participating in any organization. Since schools, companies, or organizations are in turn ordered in accordance with their prestige and time of establishment, a person's social status also differs by the organization he belongs to or has been affiliated with. The emphasis of such relationships also gives rise to partisanship (habatsu). Thus a distributor of certain company may not buy from or sell to other companies simply because there is no relationship between the bosses, even though the other companies sell cheaper or pay a better price for the goods.

It is also often observed that the Japanese or Chinese company places more emphasis on maintaining proper order and etiquette than on earning profit. This attitude can be seen from the teachings of Confucius quoted above. We also see more directly the attitude of Confucius toward being poor:

Tuan-mu Tzu once inquired, "What would you say of the man who, though poor, does not flatter; of the man who, though rich, is not proud?" Confucius replied: "They are right enough, but they are not to be compared with one who, though poor, is happy, and the one who, though rich, is fond of the rites."  
(Confucius, Book 1)

Like a father takes care of the family, the Gentleman in the company should take care of the company people. This includes all the fringe benefits and company facilities, like company housing, hospital,

playground, and company cooperatives. The company even has its own saving program, and lends money to workers to buy a house (Nedwed, 1972, pp. 134-137).

D. The Pre-1979 System of Strategic Operations for Industrial Enterprises in China<sup>1)</sup>

To carry out the policy on economic development determined by the Communist party, the policy called for the party controlling the economy directly through planning and through assigning to Party members the task of making key decisions.

Institutions primarily responsible for providing overall strategic guidance are led by the Office of the Chinese Communist Party, the State Council, and the State Planning and Economic Commissions of the Central Government. These operations are supported by industrial ministries of the Central Government, each responsible for some industrial sectors in the economy. These organizations are responsible primarily for developing five year economic plans and for determining investment and production targets. They are also responsible for developing mandatory economy-wide constraints in such areas as pricing, employment, buying supplies, selling finished goods, etc. These constraints are very rigid for those responsible for operations. The planned production and investment targets were taken seriously but financial targets were developed merely as by-products. Financing planning was, however, taken seriously. Overall, these organizations are equivalent to an organization composed of the federal government and the offices of chief executives of major corporations in the United States (all serving as "Profit Centers").

Institutions primarily responsible for developing, administering, and monitoring strategic and operating plans are led by industrial ministries of the central government. The operations are supported by Industrial Bureaus and Planning and Economic Commissions of the Provincial and Municipal Governments and units responsible for production or marketing of the products and services. These institutions are responsible primarily for developing investment plans, short-term production and marketing plans with the help of operational units in various provinces/municipalities. They are also responsible for supervising and monitoring periodically the execution of the operating plans and the implementation of the investment plans. They provide managerial assistance when necessary to units implementing the plans. Areas of help often include procuring raw materials and money, information on technology, and product designs, etc. These organizations are equivalent to corporate and divisional offices of major corporations in the United States (mainly profit centers).

There are two types of institutions primarily responsible for implementing and executing the operating plans:

(i) Enterprises in various locations

Enterprises are primarily responsible for production of goods and services and for preparing related investment plans. They are also responsible for implementing the approved investment and production plans, training and motivating employees to control cost, and procuring the supplies with the help of supervising bureaus and companies when necessary. The primary goal of these enterprises is to meet the



production targets, not the financial targets. Even though separate financial statements for each enterprise are prepared, all profits and most funds from depreciation must be submitted to the central administrators in Beijing. These organizations are equivalent to plants of major corporations responsible only for production (mainly cost centers).

(ii) Companies in Various Locations

Companies are primarily responsible for distributing goods produced by the enterprise. They are also responsible for supervising the operations of the enterprises including approval of capital budgets, appointment of key personnel, etc. These organizations are equivalent to small divisions of U.S. corporate (mainly profit centers).

Pre-1979 planning system performance was not successful, although value of production for industrial products such as steel, oil, coal and machineries were greatly increased. However, many goods such as cloth, cooking oil and food were under strict rationing and the goods available were frequently of low quality. In addition, availability of consumer durables, e.g., apartments, large appliances and TV's, was very limited. Finally, productive capacity of the general populace was not developed.

We have seen the almost complete vertical integration and control of the Chinese Communist production system by the office of Chinese Communist Party through the Central Government, which the Party tightly controls. Based on our arguments in the first part of this paper, we submit the following observations.

1. The Communist Orthodoxy believes that developing heavy industries will lead to economic development for the country and the people. This good for the nation/home (quo-jia) mentality and attitude combined with the vertical relationship based on the traditional concept of filial duty have implanted the attitude of the workers to obey the authority without resistance. They accepted orders which sometime required a great sacrifice on the part of workers themselves, as well as their family, not only because the punishment is harsh, but also perhaps because they want to practice filial duty to the Communist Party, which acts as a father substitute in the mind of the workers. Thus, like in ancient time, serving the feudal loads was of utmost importance, the development of the productive capacity of the workers was not.

2. Like father takes care of the family, the Communist Party takes care of the people. They seem to have unlimited power to govern the nation. The managers are appointed by the party, hence they represent the party to take care of the workers. Thus, as a father substitute, they do not need to be well trained in economic laws nor familiar with making economic decisions, nor stressing efficiency in management. As a consequence, many large scale projects developed were "show" projects from a technological point of view but "white elephants" from the financial point of view. Similarly, just like a father who always tries to put his own house in order, the management control of the firm was generally regarded as more important than efficiency in management. Pronouncement of those in power would seldom, if ever, be questioned.

3. Acting on the well-intended but ill-planned Communist orthodoxy of developing the country in the shortest possible time under egalitarian Communist doctrine, the central government imposed many constraints such as price control, wage equality, life-time employment, and material rationing on operation units. Without appropriate profit incentives, these constraints caused inefficiencies of production and management.

E. The Post-1979 System of Strategic Operations for Industrial Enterprises in China

The Communist orthodoxy after 1979 has been to improve the standard of living of people through economic development. The broad strategies to achieve this goal are:

- (i) To promote the necessary incentives for people to work hard. The Socialist distribution principle of "pay each according to what each produces" is promoted.
- (ii) To provide the necessary environments and to organize (including power redistribution) in such ways that capable managers can strive for efficient and effective management.
- (iii) To import, if necessary, important foreign ideas, capital and technology for economic development.

The major changes since the modernization drive can be described as:

- (i) The Introduction of a responsibility system to provide incentives to managers and workers to encourage hard work.
- (ii) To adjust other systems and constraints to allow the responsibility system to be effective. Examples include

(a) training managers and workers on new management concepts, (b) allow many enterprises to act freely on pricing and distribution of goods and materials, and (c) allow the use of value-to-consumer pricing instead of cost-plus pricing.

(iii) To reduce the role of government in a regulatory role as in western countries.

Here, managers are seen as both the authoritarian father-substitutes and the "generals" or the "leaders" who are also endowed with various qualities distinguished from the ordinary workers. Now the management skill and the specialized knowledge of the products the firm produces are emphasized. The Marx-Lenin-Mao doctrine, although still has played an important role, are not considered absolute and invariant. This relaxed attitude is also shown in the decentralization and indirect control of the nation's production firms.

After 1979 the institutions primarily responsible for providing overall strategic guidance continue to be the Office of the Chinese Communist Party, State Council, State Planning and Economic Commissions and Industrial Ministries. However, these organizations do not directly do economic planning any more. Indirect control methods are increasingly used by these organizations to influence behavior of the operators. These indirect control methods include the use of taxes, monetary policies, interest rates, subsidies, etc.

Promulgation of new rules for imports and exports, for pay and bonus of workers and managers, etc. is also done. Such constraints on enterprise and companies as price controls on products and limits on volume produced have also been removed except for some key products.



All these actions have been taken to encourage the development of initiatives and entrepreneurship at the operating level.

Institutions responsible for formulating strategic operations and executing the plans are:

- (i) Individual enterprises. They have been given many new managerial authorities in the areas of pricing, investments, marketing, employment, etc. These enterprises have become financially independent; they are responsible for their own profits and losses. These enterprises are able to set own incentive system within bounds specified by the government. These organizations are comparable to small divisions (profit centers) in the U.S.
- (ii) Companies, Bureaus and Industrial Ministries. These organizations have some authority to advise the enterprises. Some companies continue to buy some products from the enterprise for reselling. In addition, some companies, bureaus and central ministries continue to exercise some old authority because of the need for coordination between enterprises and because of the lack of trained managerial personnel. Many bureaus and ministries retain the power to evaluate performance of enterprises. Financial performance has become a very important factor to be monitored. Bonuses for workers and managers are frequently tied to such financial measures as accounting profit.

- (iii) Large national corporations organized to improve performance and to reduce regionalism are comparable to large U.S. firms (profit centers).

Evaluating the performance of the post-1979 planning system can be discussed as follows:

From the point of view of general populace as consumers, the system is a success because

- (i) Many goods (e.g., cloth, cooking oil) that were under strict rationing before 1979 are now freely available.
- (ii) Availability of durables, particularly housing and TV's and washing machines, have been greatly improved.
- (iii) Productivity and entrepreneurial ability of the general populace have been greatly enhanced.

Thus the Chinese management system seems to approach gradually the Japanese successful management in practice. However, the former will not, probably never, be the same as the latter, since the Chinese government, while recognizing the value of individual incentive, still upholds Communist orthodoxy and doctrine. However, at the local level, the managers can now provide housing, playground, and company cooperatives. They can play more paternal role of taking care of the workers.

It should be noted that although bonuses are now tied to profit of the firm, and so providing incentive to work, the "excessive" profit is frowned upon. A worker who receives more than enough bonus and salary for his living is certainly to be condemned as "petty man" conscious "only of self-interest," a sympathizer of the capitalism.

Brotherhood is emphasized. People call each other comrades, and call wives as "lovers." People, on the one hand, can be poor but happy, and on the other hand, should work hard and save everything for the development of the party and the nation. Here we see the interaction of the Communist orthodoxy and the Confucian tradition.

#### F. Comparison of Chinese, Japanese and American Management

As discussed in Sections B and C, there are some similarities between Chinese and Japanese feudal culture. However, Japan is a capitalist country and China is a communist country. Comparison of Japanese, American and Chinese management can be found in Table 1.

(A) Both the Japanese and Chinese use lifetime employment. However, in American firms employment is generally relatively short. (B) Americans use rapid evaluation and promotion approach while the Chinese and Japanese use slow evaluation and promotion approaches. (C) Chinese assign jobs to their employees; Japanese use generalized career paths and Americans use specialized career paths for their employee.

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Insert Table 1 about here  
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(D) The Chinese use a very explicit control approach to manage employees; Japanese use a relatively implicit method to handle their staff and employees, and American firms use an explicit approach in dealing with employees. (E) Both the Chinese and the Japanese use a collective approach in the decision making process. However, Japanese use horizontal and Chinese use vertical decision making procedures.

Americans generally use an individual type of decision making. (F) Similar to decision making, both Chinese and Japanese use a collective responsibility method in dealing with decision making; while the American firm uses an individual approach to handle the responsibility. (G) Finally, both the Chinese and the Japanese use a wholistic approach to handle human relationships, and Americans use a segmented approach to deal with human relationships. In general, the similarity between Chinese and Japanese management styles is essentially due to the common culture and religion background. However, Communist orthodoxy has made the Chinese management different from Japanese management.

Ouchi's (1981) Z type management can be briefly summarized in the second column of the table 1. From table 1, it is found that Z type of management is eventually similar to either Chinese or Japanese type of management. Overall, Z type of management is a hybrid product of East (Chinese and Japanese) type of management and West (American) type of management. We have found that the philosophy of Z type of management is closely related to the Confucianism philosophy as discussed in the previous sections.

#### G. Summary and Concluding Remarks

Under the paternal management system, it may be thought that individuals may shirk, avoid responsibility, and reduce motivation and innovation, resulting in reduction in productivity. Despite the possible flaw in micromanagement (Takagi, 1985) apparently this seems not to be a problem for the nation as a whole, as being evidenced by

the rapid growth of the Japanese economy after the World War II. This can also be said of the Chinese economy. Despite the slow growth, it has made a respectable progress overall, as shown by a comparison with Taiwan (Hsiao and Hsiao, 1963). We submit that the so-called Japanese management style is simply the Confucius teaching applied to management adopted to the modern social/cultural and political/economic environment. Further research from this vantage point of view seems to be in order.

In this paper, the impacts of Communist orthodoxy on Chinese management from 1949 has also been discussed in some detail. The Communist orthodoxy has had strong impacts for Chinese management for last 38 years. However, the modernization drive led by Deng Xiao Ping and endorsed by the central committee of the Communist party in December 1979 has caused the Communist orthodox economic ideology to be deemphasized.

Chinese type of socialism has become the key slogan in Chinese management and economic policy. Hopefully, the Chinese management philosophy will continue to evolve toward the theory Z style of management.



TABLE 1

Comparison of Japanese, American and Chinese Management

A. Employment

Type J = lifetime  
Type A = short time  
Type C = lifetime

Type Z = lag time

B. Evaluation and Promotion

Type J = slow  
Type A = rapid  
Type C = very slow

Type Z = relatively slow

C. Career Paths

Type J = generalized  
Type A = specialized  
Type C = assignment

Type Z = wandering around

D. Control Mechanisms

Type J = implicit  
Type A = explicit  
Type C = very explicit

Type Z = implicit and explicit

E. Decision Making

Type J = collective (horizontal)  
Type A = individual  
Type C = collective (vertical)

Type Z = collective (mixed horizontal  
and vertical)

F. Responsibility

Type J = collective  
Type A = individual  
Type C = collective (too extreme)

Type Z = individual

G. Human Relationship

Type J = wholistic  
Type A = segmented  
Type C = wholistic

Type Z = wholistic

Notes: Type J = Japanese Management  
Type A = American Management

Type Z = Ouchi's Z theory management  
Type C = Chinese management

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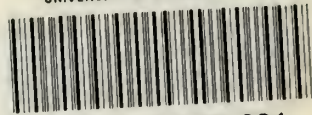
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